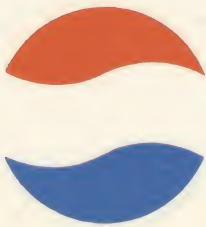


Pepsi-Cola Company Annual Report





Pepsi-Cola Company Annual Report



1962

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Board of Directors

Herbert L. Barnet
Charles Allen, Jr.
Sheldon R. Coons
Thomas Ehmezzi
James Felt
Harry E. Gould
Christopher E. Holzworth

Donald M. Kendall
Milward W. Martin
Don G. Mitchell
J. Lincoln Morris
Dr. Louis A. Rezzonico
Joan Crawford Steele
George C. Textor

Officers

Herbert L. Barnet, *President and Chief Executive Officer*
William C. Durkee, *Senior Vice-President, Marketing*
Thomas Ehmezzi, *Senior Vice-President, Manufacturing*
Adolph Krieger, Jr., *Administrative Vice-President and Controller*
Milward W. Martin, *Senior Vice-President, Head of Law Department*
Louis E. Nufer, *Senior Vice-President and Treasurer*
Harold E. Rome, *Secretary*

VICE PRESIDENTS

Charles N. Baker, *National Sales*
Peter Borie, *Law*
D. Mitchell Cox, *Public Relations*
Stephen J. Gullo, *Technical Services*
Robert E. Haley, *Central Division*
Philip B. Hinerfeld, *Advertising*
B. Lowell Jacobsen, *Industrial Relations*
William Joachim, *Design and Art*
Victor M. Kaufman, *Western Division*
Marc A. Lefebvre, *Field Operations*
Seymour Lusterman, *Market Research*
Henry E. McGovern, *Equipment*
Neil A. Morrison, *Plant Design and Engineering*
Richard C. Petrie, *Southern Division*
John E. Repko, Jr., *Fountain Syrup*
Robert K. Rogers, *Planning and Control*

Philip Rubenstein

Harvey C. Russell, *Special Markets*
Carl B. Salts
Frederick Sorensen, *Eastern Division*
John J. Soughan, *Marketing Services*
A. Allen Thomson, *Sugar Division*
Robert M. Worden, *Team Division*

Vincent M. Burke, *Assistant Treasurer*
James W. Robertson, *Assistant Secretary*

PRESIDENTS OF SUBSIDIARY COMPANIES

Donald M. Kendall,
President of Pepsi-Cola International, Ltd.
Frank W. McIntosh,
President of Pepsi-Cola Canada Ltd.
John L. Bate,
President of Pepsi-Cola Metropolitan Bottling Company, Inc.

Transfer Agents

The Marine Midland Trust Company of New York
The First National Bank of Jersey City
Harris Trust and Savings Bank (Chicago, Illinois)

Registrars

The Chase Manhattan Bank, New York
The First National Bank of Chicago

Counsel

Hays, Algase, Feuer, Porter & Spanier, *General Counsel to Pepsi-Cola Company*
Seligson, Morris, & Neuburger, *General Counsel to Pepsi-Cola Metropolitan Bottling Company, Inc.*

Annual Meeting

The Annual Meeting of our Stockholders, which is held each year at the Company's home office in Wilmington, Delaware, will be held there this year at 2 p.m. E.D.T. Wednesday, May 1, 1963.



To the Stockholders of Pepsi-Cola Company

Moving forward strongly for its twelfth consecutive year of growth, Pepsi-Cola Company in 1962, measured by any standard, recorded the greatest year of its history.

Both sales and earnings set new high records. Net sales were \$191,630,223, up \$17,775,797 over the previous high of \$173,854,426. For the first time in the Company's history, net income exceeded \$15,000,000. After taxes and adjustment for foreign activities, net income was \$15,412,389, compared with \$14,368,035 in 1961. This is \$2.36 per share of stock, based on 6,522,905 shares outstanding on December 31, 1962, as compared with \$2.21 per share for 1961, the latter based on 6,509,055 shares outstanding on December 31, 1961. Before provisions for taxes and foreign activities, earnings for 1962 were \$32,509,639 as compared with \$30,062,539 for 1961.

Both at home and overseas, case sales reached record highs. In 1962 our domestic case sales were 200 percent ahead of those of 1950. Our growth abroad has been meteoric for the past five years, during which period the number of Pepsi plants in countries other than the United States and Canada has risen from 166 serving 74 countries to 277 serving 99 countries and territories. Around the world Pepsi is available to over one billion people in 101 countries, and continuing expansion into other countries and territories lies ahead.

Sizeable investments to develop particular segments of the business were reflected in the outstanding sales growth of Pepsi in 16-ounce bottles, of fountain sales, of Teem and Patio, and of International operations.

Judicious investment in all the forces of marketing, of which part was the largest advertising campaign in your Company's history, a flexible marketing strategy to meet a constantly changing world, and vigorous application of these forces against the total and growing population, having proved policies of success, continue to direct our drive into a future bright with prospect of further growth.



Herbert L. Barnet, President

Ten-year comparison

Pepsi-Cola Company and Consolidated Subsidiaries

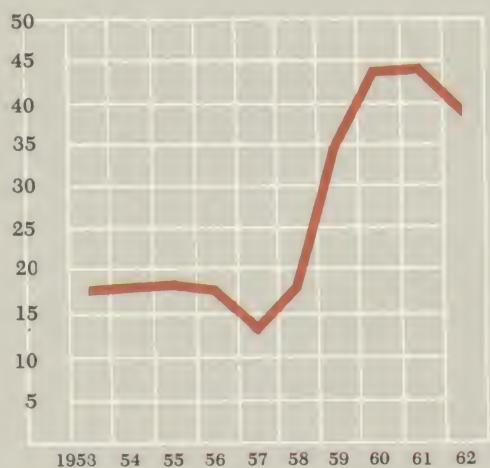
Financial Results

	Net Sales	Net Income	Earnings Per Share	Dividends	Dividends Per Share	Shares Outstanding
1962	\$191,630,223	\$15,412,389	\$2.36	\$9,123,142	\$1.40	6,522,905
1961	173,854,426	14,368,035	2.21	9,109,755	1.40	6,509,055
1960	157,672,258	14,180,705	2.18	9,052,690	1.40	6,495,955
1959	157,769,109	13,873,843	2.17	7,833,818	1.25	6,384,415
1958	136,819,847	11,547,954	1.88	7,238,496	1.20	6,138,755
1957	120,330,773	9,559,675	1.61	6,220,528	1.05	5,926,205
1956	97,035,805	8,884,787	1.50	5,915,830	1.00	5,918,655
1955	88,970,600	9,456,766	1.60	5,897,090	1.00	5,909,005
1954	74,200,232	6,212,690	1.07	3,769,493	.65	5,813,155
1953	66,106,866	5,476,882	.95	2,871,752	.50	5,743,505

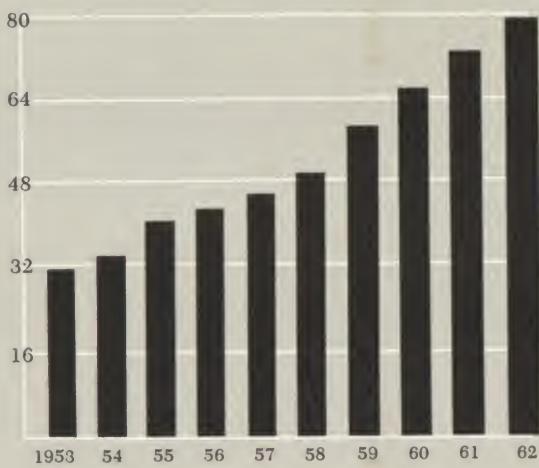
Financial Position

	Current Assets	Current Liabilities	Working Capital	Fixed Assets - Net	Other Assets	Long Term Indebtedness and Customers' Deposits	Reserve for Foreign Activities	Stockholders' Equity	Book Value Per Share
1962	\$67,225,677	\$29,103,619	\$38,122,058	\$51,109,149	\$15,885,887	\$23,056,301	\$2,963,354	\$79,097,439*	\$12.13
1961	70,665,032	26,279,229	44,385,803	42,818,073	13,595,870	24,578,536	4,098,870	72,122,340*	11.08
1960	63,176,165	19,031,454	44,144,711	39,770,876	11,315,498	24,912,379	4,143,172	66,175,534*	10.19
1959	58,681,888	23,430,599	35,251,289	37,742,852	12,712,000	22,516,154	4,595,467	58,594,520*	9.18
1958	36,252,272	19,019,387	17,232,885	34,049,468	13,637,942	12,804,641	3,104,950	49,010,704*	7.98
1957	33,748,837	19,396,554	14,352,283	31,839,309	11,777,999	12,394,706		45,574,885	7.69
1956	32,018,582	14,566,258	17,452,324	24,323,023	6,390,925	6,002,051		42,164,221	7.12
1955	32,803,026	14,300,372	18,502,654	20,103,341	5,180,719	4,692,600		39,094,114	6.62
1954	29,309,566	11,227,522	18,082,044	17,172,325	4,305,246	4,939,642		34,619,973	5.96
1953	29,850,407	11,854,418	17,995,989	14,758,730	3,963,617	5,111,280		31,607,056	5.50

*After reduction attributable to Reserve for Foreign Activities



Working Capital / 1953-1962



Stockholders' Equity / 1953-1962



Net Sales / 1953-1962



Net Income / 1953-1962



Pepsi-Cola 1962 Sales Activities





1901



1905



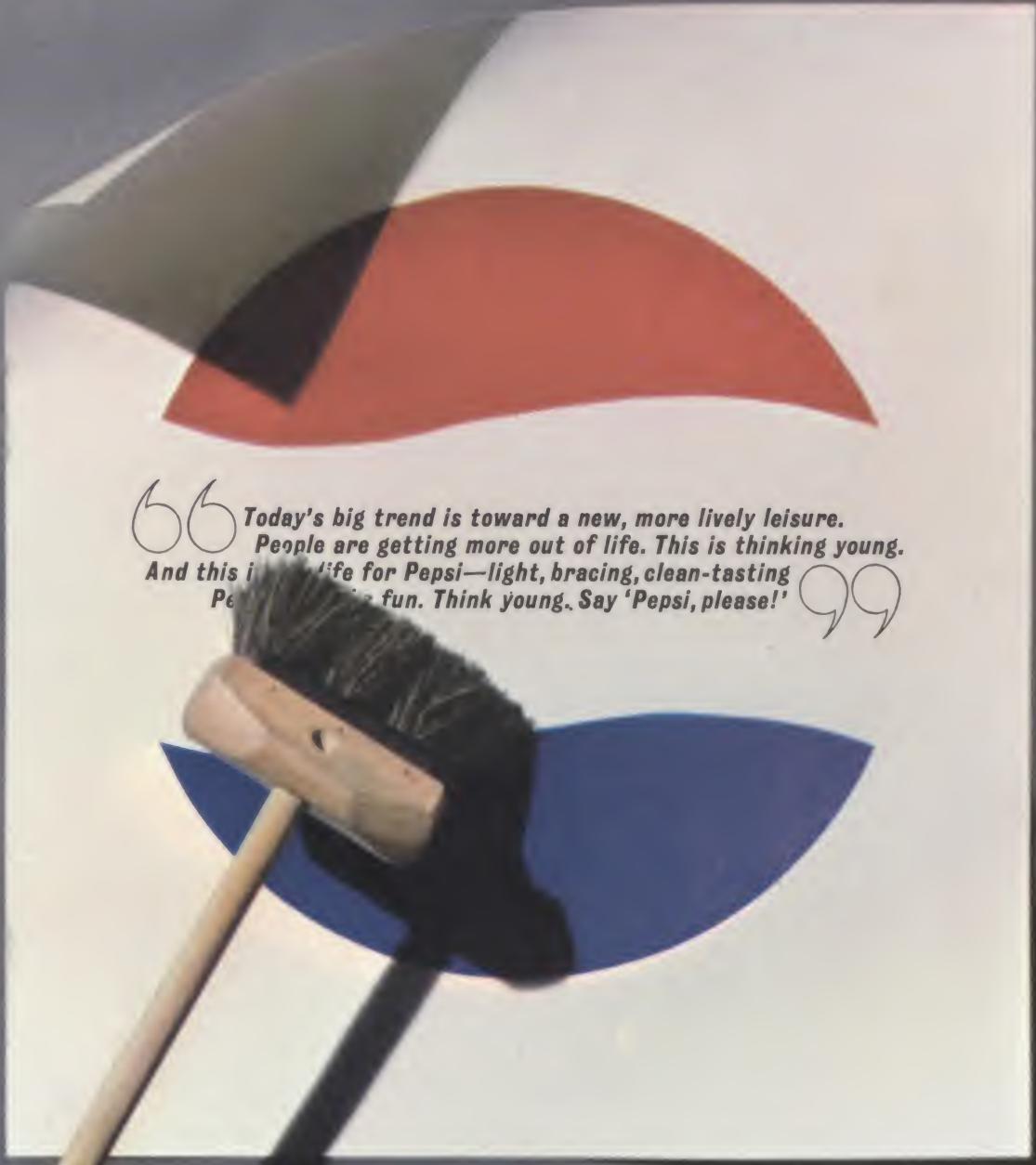
1906



1950



1962



66 Today's big trend is toward a new, more lively leisure.
People are getting more out of life. This is thinking young.
And this is the life for Pepsi—light, bracing, clean-tasting
Pepsi. It's fun. Think young. Say 'Pepsi, please!' 99



Salesmanship: variety and convenience

THE SALES growth of Pepsi-Cola springs directly from change in marketing ideas to meet changing community or individual preferences. Thus, though the product itself is everywhere uniform, it is presented to the public in a broad variety of packages. Pepsi products now appear in 120 different packaging elements, each filling its purpose of making the product available to more people in more places as they like it.

Proof of the advantage of innovation is that those packages relatively new in introduction or emphasis provide especially strong addition to general Company progress.

Sales growth in the 16-ounce ("Half-Quart") bottle more than doubled in 1962, dramatically outstripping by far the percentage of growth in other packages; in some franchises it accounted for almost half the "take-home" sales. Yet, its future appears even brighter since at year's end this package had not yet been introduced into half the domestic franchises.

Similarly, fountain sales, upon which a new emphasis has recently been placed, rose excitingly, as a result of more trained manpower, heavier investment in fountain equipment, and broader distribution to more customers.

Sales through vending machines rose as bottlers in 1962 invested twenty million dollars in the new "Crown Line" with its three-dimensional panel, an increase in vending investment of 25 per cent over 1961. Additionally, their purchases of display stands also rose 25 per cent.

In the non-returnable, convenience packages—cans and one-trip bottles—sales continued to rise sharply, exceeding every rise on record in this container.

The broadened distribution resulting from these emphases stimulates growth in all packages or means of bringing Pepsi to a wider public.

To meet the varying preferences of modern people, Pepsi is made available in a wide variety of packages, whose size, container, or manner of delivery pleases every choice. At left: Pepsi in 26-ounce, 16-ounce, 12-ounce, and 8-ounce bottles, and in cans. At right—the eight-bottle carton, multiple-flavor vending for Pepsi, Teem and Patio, and the Miss America Fountain Dispenser. There are many other packages also, like the 6½-ounce "single drink" bottle and the traditional six-bottle carton.





now it's Pepsi-for those who think young

People are in the mood for fun these days—and part of the fun is Pepsi. Light, bracing Pepsi-Cola matches your modern activities with a sparkling-clean taste that's never too sugary or sweet. And nothing drenches your thirst better than a cold, inviting Pepsi. Think young—say "Pepsi, please!"



In 1962 Pepsi-Cola Company increased its budget for the most effective, efficient, and dramatically successful advertising campaign in the soft-drink industry, built about the theme "Now It's Pepsi—For Those Who Think Young."

Our advertising reached 95 per cent of U.S. households, containing some 165 million people, at an average frequency of 41 times each during the year. The effect of this forceful repetitiveness was that by year's end 64 per cent of the United States population could identify the "Think Young" theme as referring to Pepsi, whereas the next highest identification of another soft-drink advertiser was a rating of less than half the public.

On television, our ads, again featuring our special lyrics to the old tune "Makin' Whoopee," presented through the voice of Joanie Sommers to the music of Mitchell Ayres and the photography of Irving Penn, appeared over and over on hundreds of stations and in 19 of the country's top shows—*Ben Casey*, *Wagon Train*, *I've Got A Secret*, *Naked City*, *Twilight Zone*, the *Alfred Hitchcock Show*, and others.

Our special telecast of the Miss America Pageant brought us into 40 per cent of American homes, establishing not only our product but also our scholarship identity in local and state pageants as well as the national.

On radio, Pepsi continued to be one of the country's largest advertisers, running thousands of commercials on all four networks.

Print media featured a big, bold look in warm and human photography, repeated in magazines, newspapers, outdoor posters, and other materials. Full-page, full-color ads sprang from the pages of *LOOK*, *THE SATURDAY EVENING POST*, *PROGRESSIVE FARMER*, and *EBONY*, as well as some publications with special audiences.

This highly successful theme for Pepsi-Cola will continue in 1963, making use of some 1,500 newspapers, 3,000 radio stations, 375 television stations, and a tremendous outdoor and point-of-purchase effort by Bottlers. The new Pepsi symbol (see p. 12) will give dramatic visual identity to our 1963 print advertising, as well as to equipment.





"Pepsi on the Move"

SPECIAL emphasis on special sections of the consuming public produced excellent growth.

To that vast section of America which moves in automobiles and is thus equipped to transport a full case of Pepsi, the Beverage Mart proved a growing stimulus to large-volume sales. It is an easily-moved, open-front display case, capable of being locked when unattended, designed for all outlets where customers shop in cars, primarily service stations. Several thousand went into such outlets in 1962, and the placement rate continued to rise appreciably.

Accelerated effort against special minority markets, by advertising, promotion, and public relations, capitalized on the population growth, customs, and wide shift in living patterns of these groups. Planned for 1963 is a twelve-page schedule of special advertisements for *EBONY* and *JET* magazines, both appealing primarily to the Negro Market, and special point-of-purchase materials for the Spanish-language publics grown to large size in such cities as Miami, Tampa, and New York.

Pepsi-Cola Metropolitan Bottling Company, Inc., the wholly-owned subsidiary operating 17 bottling plants in major cities of the United States, enjoyed an exceptional year, its sales rising to an all-time high.

During the year special sections of the public felt the force of various Company-sponsored promotions, such as the "White Star" promotion, by which 150 franchises redeemed large masses of Pepsi and Teem crowns for cash to be donated to local charities and educational groups; or the "Gift Seal" promotion, whereby bottle crowns with special seals underneath were redeemable for valuable merchandise.

Growth required 12 domestic franchises to erect new bottling plants and 36 others to enlarge existing facilities.

For service stations and outdoor display and purchase, Pepsi's "Beverage Mart" (top) sells whole cases of Pepsi from these lock-up units. The Miss America Doll promotion resulted in the placement of tens of thousands of display units (right) and huge sales increases across the country.





A black and white advertisement. On the left, a white speech bubble contains the text "A Portrait of Joan". Below it is a book titled "A PORTRAIT OF JOAN" by Joan Crawford. On the right, a large portrait of actress Joan Crawford is shown smiling. The text "For those" is written above her, and "you" is written below her, with a rose icon at the end. The overall composition is a classic movie poster style.



BY PARTICIPATION in and identity with local and national sports, social, cultural, educational, professional, youth and civic activities which have the interest and respect of varying large groups of people, your Company increased the sale of Pepsi across the land by increasing identity, goodwill, and sampling.

Educational scholarships for all state, national, and many local winning participants in the Miss America pageant; wide and frequent support of this and other programs sponsored by the Jaycees; and support of various athletic groups—all made special impact on young people. Much favorable publicity came from local appearances of Miss America, Jacqueline Jeanne Mayer, under Pepsi sponsorship. More than 300 girls were being educated in colleges and universities partially by scholarships won in this program.

At scores of national conventions your Company served Pepsi-Cola to thousands of influential delegates.

Joan Crawford Steele, Director, appeared in many cities at plant openings and other public occasions in the interest of Pepsi-Cola, also toured a dozen cities with her autobiographical book "Portrait of Joan" in joint sponsorship of your Company and her publishers.

Much acclaim and many high awards came for exhibits in the lobby of the World Headquarters Building on Park Avenue in New York City, some being taken up for tours across the country under guidance of the Smithsonian Institution.



Top left: General Lucius Clay (left), Company President Herbert L. Barnet (center), and Donald M. Kendall, Pepsi-Cola International President (right), confer in the Pepsi-Cola Exhibition Gallery at the opening reception of "The Iron Curtain—German Children's Art" exhibition, now touring the country. Bottom: Joan Crawford Steele, a Director of the Company, spreads good will for Pepsi while touring major U.S. cities. Right: Pepsi-Cola Scholarship winner, Miss America 1962. Bottom right: The Pepsi-supported Jaycees Ninth Annual Golf Championship.



New Products

TEEM, the lemon-lime drink, continued in 1962 its rapid rising at a rate of growth almost ten times as large as the general Company increase, 39 more bottlers receiving franchises, making a total of 325 Teem franchises by year's end. Some 50 more had prepared to introduce Teem during the early months of 1963.

In support of the drive for the fast growing \$300,000,000 lemon-lime segment of the soft-drink market, the 1962 advertising campaign was greatly expanded to include monthly ads in the Saturday Evening Post, strong newspaper campaigns, and local radio and TV and outdoor poster programs.

Patio (orange, grape, root beer, ginger ale, club soda, strawberry) by the end of the year was being distributed to over a third of the nation's population. Sales, however minor compared with Pepsi-Cola, in those franchises which had introduced the product prior to 1962, increased some 35 per cent over the preceding year.

In response to the growing demand for a low-calorie cola, especially in urban and suburban centers, your Company developed in 1962 Patio Diet Cola. Being introduced to bottlers during 1963, Patio Diet Cola contains only one calorie per six-ounce serving.

Debbie Drake, the popular TV proponent of fitness and exercise, and the author of a newspaper column and several books on physical fitness, has been signed to appear in ads and make personal appearances for Patio Diet Cola.

(Top) The distribution map for Teem shows that Teem is available to three-quarters of the United States and 68 per cent of the population. Patio Diet Cola, (right) the new low calorie drink developed by the Company for introduction in 1963, will have one calorie per six-ounce serving.







In its ninth consecutive year of outstanding growth, Pepsi-Cola International, Ltd., set new records in sales and profits, launched 21 new franchise operations, and ended 1962 with Pepsi now available to some 800 million people in 99 countries and territories outside the United States and Canada.

Having in its meteoric expansion opened an average of 20 new plants abroad in each year of the past decade, Pepsi International in 1962 opened four new plants in Italy (including Rome), three in France, the eleventh plant in Spain, the sixteenth in Venezuela, and the forty-first in Mexico. In addition, it brought Pepsi-Cola for the first time to Costa Rica, Cambodia, Pakistan, and Trucial Oman. Plans were laid to continue a similar growth in 1963, to include introducing Pepsi-Cola for the first time to six new countries.

Along with the large-scale inauguration of new plants and franchises, new programs to increase sales in existing markets were pushed, using hard-hitting advertising and promotion together with extensive market research. As a result more than one-fifth of all foreign franchises produced sales exceeding 1,000,000 cases of Pepsi-Cola. In Latin America more than one-third did so.

Our overseas operations put an exceptionally strong emphasis on public relations. The need for schools, disaster relief, education and community projects of all sorts in many countries encouraged many of our foreign bottlers to make outstanding contributions to their community, thereby gaining broad public respect. Worldwide, the Junior Chamber International Community Development Program again received support from the Company and its foreign bottlers, as did the Dag Hammarskjold Award program for "Leadership in International Understanding," and many other organizations with similar interests, such as "Acción" in South America.



Availability Overseas



THE BASIC advertising campaign for Pepsi-Cola International "The Big One" (see photos, right) has proved to be ideally suited to adaptation in both sophisticated and undeveloped areas as well as in all languages. The flexibility of this campaign is reflected in the wholehearted acceptance of bottlers on all continents who for the first time are using a universal theme.

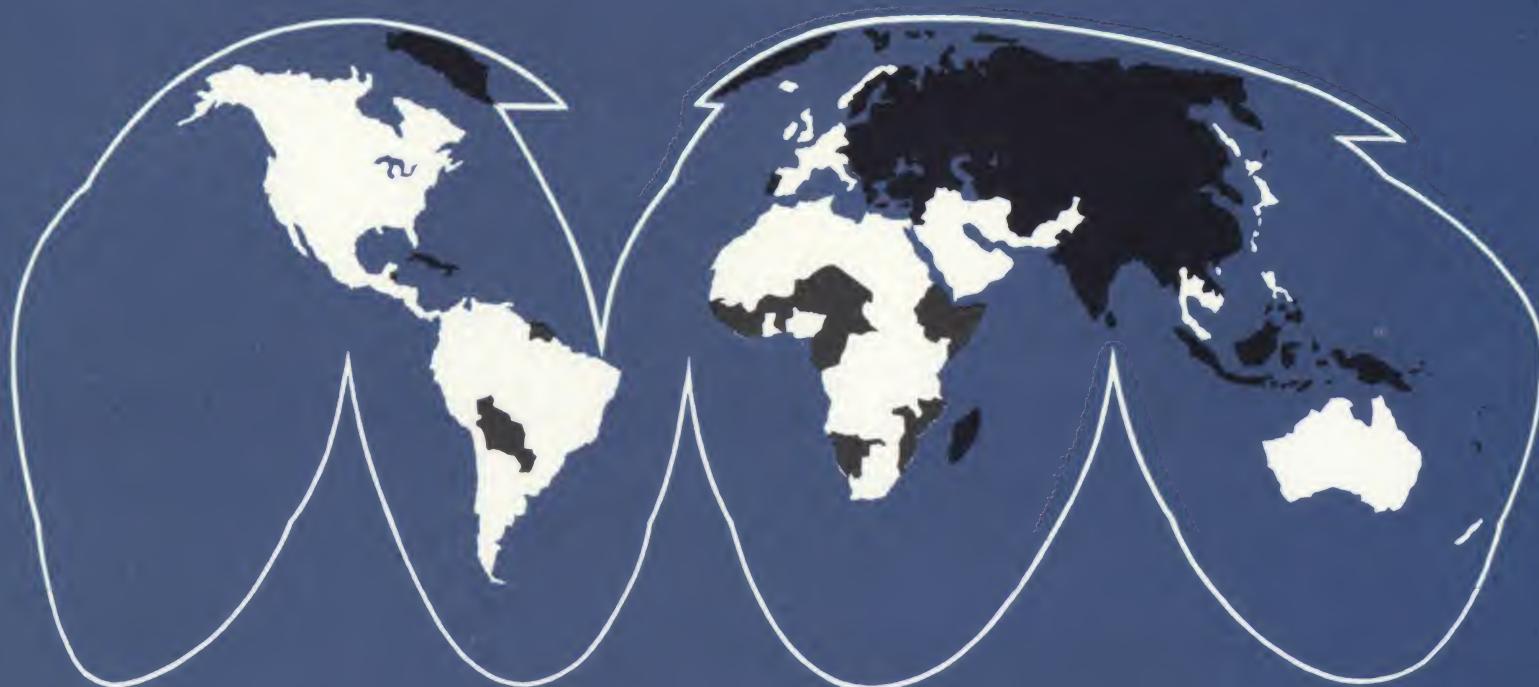
In addition to magazine and newspaper ads, commercials for radio and TV have been adapted to the new theme. Color sequences for cinema advertising were also produced, especially valuable in countries where there is a dearth of visual media except for outdoor movies and billboards.

Mirinda, your Company's foreign counterpart to Patio, doubled its franchise coverage from 32 to 64 franchisees now bottling and selling Mirinda over five continents. 1962 sales were up 13 per cent over 1961 in this growing flavor drink line.

The manufacture of base concentrate (from which Pepsi-Cola bottlers around the world produce finished Pepsi) was expanded to new areas during 1962. New manufacturing plants were built in Bogota, Colombia, and Santiago, Chile, and have added shorter supply lines to the surrounding franchise areas.

Foreign concentrate plants now number 17 (outside of six in the United States and Canada: Montreal, Toronto, Vancouver, New York, Louisville and Oakland) located in Buenos Aires, Argentina; Santiago, Chile (1962); Porto Allegre, Brazil; Bogota, Colombia (1962); Mexico, D.F., Mexico; Monterrey, Mexico; Montevideo, Uruguay; Ireland Is., Bermuda; London, England; Paris, France; Offenbach/Main, Germany; Madrid, Spain; Mombasa, Kenya; Johannesburg, South Africa; Sydney, Australia; Tokyo, Japan; Manila, The Philippines.

Countries and Territories selling Pepsi-Cola abroad



Western Hemisphere

Argentina
Aruba
Bahamas
Barbados
Bermuda
Brazil
British Guiana
Canal Zone
Chile
Colombia
Costa Rica
Curacao
Dominican Rep.
Ecuador
French Guiana
Grenada
Guadeloupe
Honduras
Jamaica
Martinique
Mexico
Nicaragua
Panama
Peru
Puerto Rico
St. Lucia
St. Pierre & Miquelon
St. Vincent
Salvador
Trinidad
Uruguay
Venezuela
Virgin Islands

Europe

Andorra
Baltic Islands
Cyprus
England
Eire
France
Germany
Iceland
Italy
Luxembourg
Malta
Monaco
North Ireland
Norway
Sardinia
Spain
Switzerland

Africa

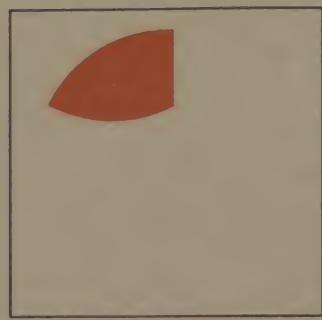
Algeria
Angola
Basutoland
Bechuanaland
Capeverde Islands
Rep. of Congo
(Leopoldville)
Egypt
Fed. of Rhodesia
Iceland
Italy
Ivory Coast
Ghana
Haiti
Kenya
Liberia
Lybia
Mauritius
Morocco
Nigerian
Senegal
Spanish Sahara
Sudan
Swaziland
Tanganyika
Uganda
Zaire

Middle & Far East

Afghanistan
Arabia
Bahrain
Cambodia
Fiji
Guam
Hong Kong
Iran
Iraq
Japan
Kuwait
Lebanon
Morocco
Malaya
New Caledonia
New Zealand
Okinawa
Pakistan
Philippines
Qatar
Saudi Arabia
Singapore
South Viet-Nam
Thailand
Trinidad Oman

Pepsi-Cola 1962 Financial Section





Accountants' Opinion

HASKINS & SELLS
Certified Public Accountants

Two Broadway
New York 4

The Directors and Stockholders of Pepsi-Cola Company:

We have examined the consolidated balance sheet of Pepsi-Cola Company and its consolidated subsidiaries as of December 31, 1962 and the related statements of consolidated income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and the statements of consolidated income and surplus present fairly the financial position of the companies at December 31, 1962 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Haskins & Sells

March 8, 1963

Consolidated Balance Sheet December 31, 1962 and 1961

Pepsi-Cola Company and Consolidated Subsidiaries

	1962	1961
Assets		
CURRENT ASSETS:		
Cash	\$ 38,289,369	\$ 44,389,477
Short-term investments—at cost	902,000	
Notes and accounts receivable (less allowance for doubtful receivables—1962, \$855,480; 1961, \$874,678)	13,847,242	11,087,417
Inventories—at cost, not in excess of market:		
Finished, in-process, raw materials and supplies	13,395,543	12,731,843
Vending equipment held for resale	1,693,523	1,554,295
Total current assets	67,225,677	70,665,032
MISCELLANEOUS ASSETS:		
Notes and accounts receivable—not current	5,227,766	2,635,615
Investment in and advances to subsidiaries not consolidated	696,363	2,537,647
Other	663,496	655,523
Total miscellaneous assets	6,587,625	5,828,785
PROPERTY, PLANT AND EQUIPMENT:		
Land, buildings, equipment, leasehold improvements, etc.—at cost (less depreciation and amortization—1962, \$34,297,518; 1961, \$32,815,571)	38,049,075	33,840,587
Bottles and cases on hand and with trade (principally at estimated depreciated values)	13,060,074	8,977,486
Total property, plant and equipment—net	51,109,149	42,818,073
DEFERRED CHARGES:		
Prepaid insurance, taxes, etc.	1,329,615	1,093,813
Advertising materials and expenses	4,105,896	2,765,739
Other	595,896	778,341
Total deferred charges	6,031,407	4,637,893
TRADEMARKS, FORMULAS AND GOODWILL (less amortization)	3,266,855	3,129,192
TOTAL	\$134,220,713	\$127,078,975

Consolidated Balance Sheet December 31, 1962 and 1961

Pepsi-Cola Company and Consolidated Subsidiaries

Liabilities	1962	1961
CURRENT LIABILITIES:		
Notes payable (including current installments on long-term indebtedness)	\$ 2,673,025	\$ 1,653,721
Accounts payable and accrued	12,831,724	11,228,330
Accrued taxes:		
United States and foreign income taxes	10,846,437	11,219,092
Other taxes	2,752,433	2,178,086
Total current liabilities (exclusive of customers' deposits on bottles and cases, shown below)	29,103,619	26,279,229
OTHER LIABILITIES:		
Long-term indebtedness (current installments included above):		
5½% notes (payable in annual installments of \$1,250,000 to 1973; the balance payable in 1974)	16,250,000	18,750,000
Other	779,156	887,051
Customers' deposits on bottles and cases	6,027,145	4,941,485
Total other liabilities	23,056,301	24,578,536
RESERVE FOR FOREIGN ACTIVITIES	2,963,354	4,098,870
CAPITAL STOCK AND SURPLUS:		
Capital stock—authorized, 7,500,000 shares of 33½¢ each; issued and outstanding at December 31, 1962, 6,522,905 shares	2,174,302	2,169,685
Capital surplus	11,290,145	10,991,676
Earned surplus	65,632,992	58,960,979
Total capital stock and surplus	79,097,439	72,122,340
TOTAL	\$134,220,713	\$127,078,975

Consolidated Income for the years ended December 31, 1962 and 1961

Pepsi-Cola Company and Consolidated Subsidiaries

	1962	1961
Net Sales	\$191,630,223	\$173,854,426
Cost of Sales	57,052,847	50,240,570
Gross Profit on Sales	134,577,376	123,613,856
Advertising, Selling, Shipping, General and Administrative Expenses	102,290,437	93,218,310
Profit from Operations	32,286,939	30,395,546
Other Income	2,743,047	1,500,093
Total Income	35,029,986	31,895,639
Income Charges:		
Interest on indebtedness	1,057,412	1,108,159
Losses arising from devaluation of foreign currencies	688,536	55,570
Other	774,399	669,371
Total	2,520,347	1,833,100
Income Before Income Taxes	32,509,639	30,062,539
Provisions for United States and Foreign Income Taxes:		
United States	12,450,000	10,370,000
Foreign	5,400,000	4,950,000
Total	17,850,000	15,320,000
Income After Provisions for Income Taxes	14,659,639	14,742,539
Adjustment for Foreign Activities	752,750	(374,504)
Net Income	\$ 15,412,389	\$ 14,368,035

Consolidated Surplus for the year ended December 31, 1962

Pepsi-Cola Company and Consolidated Subsidiaries

Earned Surplus

Balance, January 1, 1962	\$58,960,979
Net income for the year	15,412,389
Portion of prior year's appropriation to Reserve for Foreign Activities restored to Earned Surplus (amount equivalent to foreign subsidiary's loss which reduced unremitted profits previously appropriated)	382,766
	74,756,134
Less dividends paid—cash (\$1.40 a share)	9,123,142
Balance, December 31, 1962	\$65,632,992

Capital Surplus

Balance, January 1, 1962	\$10,991,676
Excess of proceeds over par value of 13,850 shares of capital stock issued under stock option plans	298,469
Balance, December 31, 1962	\$11,290,145

1. The consolidated financial statements for 1962 include the accounts of all active subsidiaries except the British subsidiary (which has been excluded since 1950).

The assets and liabilities of foreign subsidiaries have been translated into United States dollars at current rates of exchange, except that property, plant and equipment (and related depreciation) have been translated at rates prevailing at dates of acquisition; income and expenses (other than depreciation) have been translated at rates prevailing during the year.

The net current assets, total assets and total liabilities of consolidated foreign subsidiaries (other than Canadian subsidiaries), stated in terms of United States dollars, were \$4,744,000, \$31,162,000 and \$8,234,000, respectively, at December 31, 1962.

The amount at which the Company's investment in the British subsidiary is carried is equivalent to that subsidiary's net assets.

2. It is the policy of the Company to exclude from consolidated net income and consolidated earned surplus the unremitted earnings of foreign subsidiaries, other than Canadian subsidiaries, by providing a Reserve for Foreign Activities. A transfer is made each year to or from the reserve representing (a) such subsidiaries' unremitted profits (before devaluation charges) less applicable charges for amortization of goodwill, and (b) losses arising from devaluation of foreign currencies. The adjustment for 1962 represents dividends received in excess of current earnings less charges for amortization of goodwill, \$350,697, plus devaluation losses (other than Canadian) of \$402,053.

3. United States income tax returns of the Company and principal domestic subsidiaries have been examined and settled through the year 1957; Canadian taxes of Canadian subsidiaries have been settled through the year 1960.

The investment credit of the Company and its subsidiaries, as provided for in the Revenue Act of 1962, resulted in a reduction of approximately \$80,000 in Federal income taxes for 1962. The investment credit has been deferred and is being taken into income over the estimated useful lives of the related property.

4. The loan agreements relating to the 5½% notes payable contain various restrictions including provisions relating to the maintenance of consolidated working capital of the Company and certain subsidiaries, and restrictions on the payment of dividends and the purchase of shares of the Company's capital stock. Of

the consolidated earned surplus at December 31, 1962, approximately \$12,800,000 was free of restrictions.

5. At January 1, 1962, under Stock Option Plans of 1955 and 1959, which were approved by the stockholders in 1956 and 1960, respectively, there were outstanding options to purchase 136,400 shares of the Company's capital stock and 108,250 shares were reserved for the granting of additional options. During 1962 options for 54,500 shares were granted for an aggregate option price of \$2,757,500, options for 13,850 shares were exercised for an aggregate option price of \$303,086, and options for 2,500 shares were cancelled. At December 31, 1962 options were outstanding with respect to 174,550 shares having an aggregate option price of \$6,696,153 and 55,250 shares were reserved for the granting of additional options.

Under the 1955 Plan options are exercisable within five years from the date of grant but no additional options may be granted. Under the 1959 Plan options must be granted at 100% of the highest market price on the date of grant, are cumulatively exercisable to the extent of 40% after three years and an additional 15% after each of the following four years, and expire after eight years.

6. The Company and its consolidated subsidiaries are lessees under 39 leases having unexpired terms of more than three years which expire at various dates to 1992. The present minimum aggregate annual rental under these leases is approximately \$1,800,000.

7. At December 31, 1962 the Company and consolidated subsidiaries were contingently liable as guarantors of loans, principally to various franchised Bottlers, aggregating approximately \$4,400,000. Other guarantees by the Company amounted to \$700,000.

8. Certain vending equipment acquired by Bottlers is purchased by them on the installment basis and financed by banks; unpaid balances due by Bottlers on such acquisitions amounted to approximately \$16,400,000 at December 31, 1962. The companies have agreed to purchase such equipment, in the event of default by the buyers, for the unpaid balance.

9. The provisions for depreciation and amortization amounted to \$5,700,000 in 1962 and 1961.

Executive Offices

500 Park Avenue
New York 22, New York

Division Offices

CENTRAL

1 East Wacker Drive
Chicago 1, Illinois

EASTERN

1012 14th Street, N.W.
Washington 5, D.C.

SOUTHERN

1910 Vaughn Building
Dallas 1, Texas

WESTERN

223 South Beverly Drive
Beverly Hills, California

Regional Offices

1776 Peachtree Building
Atlanta 9, Georgia

1 East Wacker Drive
Chicago 1, Illinois

3420 LeVeque Lincoln Tower Building
Columbus 15, Ohio

1918 Vaughn Building
Dallas 1, Texas

817 17th Street
Denver 2, Colorado

785 Market Street
San Francisco 3, California

37 Lewis Street
Hartford 3, Connecticut

1012 14th Street, N.W.
Washington 5, D.C.

1404 Wachovia Bank Building
Charlotte 2, North Carolina

